

TOUTLE LAKE SCHOOL DISTRICT No. 130
Cowlitz County, Washington
Special Audit
April 2, 1994 Through October 26, 1994

Schedule Of Findings

1. Public Funds Were Misappropriated And Public Records Were Falsified To Conceal The Theft

Our special audit of the Toutle Lake School District revealed a misappropriation of at least \$524 in public funds from Associated Student Body (ASB) activities during September 1994. Accounting records were falsified in an attempt to conceal the losses. No federal funds were involved in this case. The misappropriation of these funds occurred as described below.

- a. Ticket Sales Reports used to reconcile the receipts for ASB activities to tickets sold were falsified to equal the amount of money being deposited. Not all cash received from ticket sales was deposited. The difference between moneys counted by cashiers after the September 30, 1994, football game and the amount prepared for deposit by the ASB secretary on October 3, 1994, represents a loss of approximately \$449.
- b. A family pass was sold and issued without a corresponding receipt being prepared. The revenues were not recorded in the accounting records, and moneys were not deposited. The amount of loss from this method is \$75 in September 1994.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who:

- (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed this misappropriation to occur:

- a. Separation of Duties) The ASB secretary inappropriately had complete control over issuing the tickets to the cashiers, the ticket sales reports used to determine the amount of money which should have been generated by ticket sales, and the money received from those sales before it was deposited. Duties must be properly segregated, so that the person who accounts for the sale of the tickets does not have access to cash received from ticket sales.

The \$449 was missing from the September 30, 1994, football game where reconciliations of cash receipts to ticket sales were performed by the ASB secretary. Curious about the total cash received and departing from their usual practice, the two cashiers counted the receipts after the game on Friday, September 30, in the presence of the high school principal. Based on their count, they expected a deposit of \$1,800 cash. However, on the following Monday, when the deposit was prepared by the ASB secretary, only \$1,351 cash was present. Because the ticket reconciliation records had been falsified, they reconciled exactly to the \$1,351 available in the ASB secretary's deposit. The original ticket reconciliations were prepared in a school volunteer's handwriting. However, the reports which reconciled to the deposit were not the same ones prepared by the volunteer.

- b. Numeric Control of Passes) Passes were not prenumbered. As a result, the number of passes issued in a given period could not readily be reconciled to cash received from pass sales. Passes sold should have been regularly compared to cash received from such sales to ensure that all receipts had been deposited. Because these controls were not in place, the \$75 from the sale of this pass was stolen, and the transaction was not recorded.

Other weaknesses noted which result in poor controls and increased risk of misappropriation include failure of the ASB secretary to make timely deposits, allowing cash to accumulate, and not depositing receipts intact. The ASB secretary did not follow nor enforce proper internal controls even though she had been given training and had specific knowledge in this area. When interviewed, she stated she knew all cash should be counted and documented before being receipted, but did not enforce this policy.

We recommend the Toutle Lake School District seek recovery of the misappropriated \$524 and related audit/investigation costs from its insurance bonding company.

Bond coverage for district employees is as follows:

Industrial Indemnity Company of the Northwest
Faithful Performance Blanket Position Coverage
Policy No. OB 912-8051
\$100,000, limit
September 1, 1992, until cancelled

We recommend the Washington State Office of the Attorney General and the Cowlitz County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement in this case must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.260.

We also recommend the school district monitor its accounting controls over cash receipting and depositing and implement effective internal controls designed to ensure the protection of public assets.